



BOARD OF GOVERNORS  
OF THE  
**FEDERAL RESERVE SYSTEM**  
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 12, 1997

Winthrop N. Brown, Esq.  
Shaw Pittman Potts & Trowbridge  
2300 N Street, N.W.  
Washington, D.C. 20037-1128

Dear Mr. Brown:

This letter is in response to your correspondence dated May 29, and July 9, 1997, on behalf of HSBC Holdings plc, HSBC Finance (Netherlands) Limited, and HSBC Holdings NV (collectively "HSBC"). Your letters request authority to effect a corporate reorganization of various nonbanking subsidiaries of HSBC, including HSBC's wholly owned section 20 subsidiary, HSBC Securities, Inc. ("HSI"). As part of the reorganization, HSBC intends to make certain modifications to the funding structure of HSI.

HSBC previously received approval from the Board to engage through HSI in underwriting and dealing, to a limited extent, in all types of debt and equity securities.<sup>1</sup> The Board's approval was subject to a commitment by HSBC to obtain prior approval from the Board to consummate a corporate reorganization of HSI.

HSBC now proposes a comprehensive reorganization involving various nonbanking subsidiaries, including HSI. Included in the multiple steps of the reorganization will be: (1) a merger of HSBC Futures, Inc., a U.S.-based futures commission merchant, into HSI; (2) making HSBC Futures (Singapore) Limited Pte. ("HFS"), a Singapore-based futures commission merchant, into a temporary subsidiary of HSI for up to 30 days pending HFS's ultimate sale to an unaffiliated third-party or transfer to elsewhere in the HSBC group; and (3) the transfer of certain foreign exchange, interest rate swap, and derivative operations from the New York branch of HSBC's bank subsidiary, Midland Bank, to HSI.

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<sup>1</sup> HSBC Holdings plc, 82 Federal Reserve Bulletin 356 (1996).

Based on all the facts of record, including all of the commitments and representations made by HSBC, the Director of Banking Supervision and Regulation, acting pursuant to authority delegated under section 265.7(a)(2) of the Board's Rules Regarding Delegation of Authority (12 C.F.R. § 265.7(a)(2)), has approved HSBC's request for relief so that it may conduct the proposed reorganization. In taking this action, the Director has relied in particular on the commitments received from HSBC that HFS will remain a subsidiary of HSI for no more than 30 days, that any revenues of HFS will not be included for purposes of calculating HSI's compliance with the 25 percent revenue limit on HSI's bank-ineligible underwriting and dealing activities, and that HSI and its subsidiaries (including HFS, during the period that it is a subsidiary of HSI) will at all times conduct their activities subject to the prudential limitations established by the Board with respect to bank-ineligible securities underwriting and dealing. The approval does not grant HSBC, its subsidiaries or affiliates authority to engage in any restructurings or transactions different from those described in your letters. The approval also does not grant HSBC, HSI, or their affiliates relief from any other conditions or commitments to which they may be subject.

HSBC also proposes that, following the reorganization described above, it will change some of the sources of funding to HSI that HSBC described to the Board when it sought approval to engage in debt and equity underwriting activities through HSI. HSI's underwriting and dealing activities were made subject to a standard condition requiring bank holding companies to obtain prior approval before transferring funds to their section 20 subsidiaries. Earlier this year the Board eliminated this restriction, 62 Federal Register 2622 (1997), and, therefore, the funding changes proposed by HSBC do not require the prior approval of the Board.

Very truly yours,



Jennifer J. Johnson  
Deputy Secretary of the Board

cc: Federal Reserve Bank of New York